

# Postal Update: How COVID Is Impacting the Mail System

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## What Is the Postal Service?

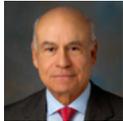
- Government agency—An independent establishment of the executive branch
- Obligated to “bind the Nation together through the personal, educational, literary, and business correspondence of the people” and “to render services to all communities”
- Governmental, but not government-funded—all expenses (labor, rent, equipment, retirement) covered by postage

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## Governance Structure

- Board of Governors
  - 9 governors plus postmaster general and deputy postmaster general
  - Maximum 5 of one political party
  - 7-year terms
  - Appointed by president; confirmed by Senate
  - Governors have exclusive power to set prices and classifications
  - Currently, 6 governors (including 2 confirmed last week)



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## Postmaster General

Louis DeJoy



CEO of USPS  
Appointed by Board  
of Governors—not  
President

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## Legislative Restrictions

The Cost of Being a Government Monopoly

- Retiree Health and Pension Prefunding Requirements
- Limitations on New Nonpostal Services
- Restrictions on Borrowing Authority
- Limitations on Investments
- Universal Service Obligation
- Pricing Limitations

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## Split Personality

### Market Dominant Products

- Statutory Monopoly
- De Facto Market Power
- Price Cap Regulation (CPI-U)
- Stringent Oversight of Contract Rates
- First Class Mail, Marketing Mail, Periodicals—Letters, Flats, Cards

### Competitive Products

- Demonstrated Lack of Market Power
- Competition Constrains Price Increases—UPS, FedEx, Amazon
- Cover Costs and Contribute to Institutional Costs
- Contract Rates Prevalent
- Packages, Express Delivery

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## Doomsday Predictions

- “We believe growth in volume and associated revenue, along with continuing productivity improvements, will not be sufficient to address the challenge presented by our current financial situation and the regulatory price cap.”  
USPS 10-k, **2010**
- April 2019: PMG Brennan testifies USPS may run out of cash by 2024
- March 2020: Rumors of a June shutdown
- April 2020: USPS tells Congress it will run out of cash by September 2020
  - \$10 billion borrowing authority will sustain it to April 2021
  - Requests \$75 billion in combination of direct grants, borrowing authority, and loan forgiveness
  - \$25 billion specifically to address COVID losses
  - Anticipates FY2020 revenue loss of \$13 billion

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## The Reality

- The baseline: Data from Postal Service Form 10-k and USPS Annual Reports for Fiscal Years 2005-2015 indicates that operating income absent “non-operating expenses” (e.g., prefunding requirements) would have been positive in 6 of 11 years between 2005 and 2015
- FY2020 Q2: Revenue increased \$348 million over same period prior year
  - Mostly does not reflect COVID-19 impacts, which began to materialize in late March
- Preliminary April financials better than anticipated
  - Revenue of \$5.7 billion vs. \$6.1 billion plan and \$5.9 billion in April 2019
  - Net loss of \$1.2 billion due primarily to increases in personnel expenses
  - Total volume down 27.2% (Marketing Mail down **45%**)
  - Competitive volume **UP 35%**, competitive revenue up **36.9%**
- USPS projects it will not need to access supplemental borrowing authority until September 2021 under reasonable assumptions
- Sustainable?

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## Going Forward

- Support, reform, or restructure?
- Perceptions of demise have always been greater than the actual danger
- USPS plays a critical role; COVID-19 has emphasized its importance
- How are regulators and legislators reacting?
- Challenges and opportunities for your business?

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## Postal Regulation

### Postal Regulatory Commission (PRC)



Robert Taub (R)  
Chair  
Term ends 10/14/22



Michael Kubayanda (D)  
Vice Chair  
Term ends 11/22/20



Ann Fisher (R)  
Term ends 10/14/24

Mark Acton (R)  
Term ends 10/14/22



Ashley Poling (D)  
Term ends  
11/22/24



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## Postal Regulatory Commission

- PRC is the regulator; U.S. Postal Service (managed by governors) is the operator
  - PRC reviews USPS operational decisions for legal compliance

### PRC's Purview Includes:

- USPS price changes
- Negotiated customer contracts
- Annual review of USPS compliance with regulations
- Complaints
- Rulemakings
  - **COVID Impact**

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## PRC Rulemaking

### RM2017-3 (10-Year Review)

- Most significant ongoing rulemaking involves PRC's proposed changes to the way prices are set for market-dominant mail
- Required by Congress
  - Postal Accountability and Enhancement Act (PAEA)
  - Begun in December 2016 – no required end date (we'll come back to that)
- Long and windy procedural history; significant participation by mailers, vendors, and trade groups – **why?**

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## 10-Year Review

...because PRC's proposal threatens massive price hikes on mailers

- Would allow USPS to charge mailers of MD products rates based on:
  - Changes to CPI; plus
  - Additional density decline-based pricing authority; plus
  - Additional retirement obligation-based pricing authority; plus
  - An additional performance-based 1% pricing authority; plus
  - Additional rate hikes on noncompensatory products
- Projected impact & industry reaction

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## 10-Year Review (cont'd)

- Current status
  - PRC staff reviewing parties' comments and will be briefing Commissioners soon
  - Unclear whether COVID pandemic impacting rulemaking
- Timing: Guaranteed\* to have a formal PRC decision in calendar year 2020

**\*Not a guarantee**

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## Legislative Outlook

- The CARES Act, which was signed into law on March 27, provided authority for USPS to borrow up to \$10 billion from Treasury
  - Nearly 3 months later, USPS has not tapped those funds
  - Treasury wants conditions on the loan
- The House-passed HEROES Act, which awaits Senate action, provided:
  - A \$25 billion direct appropriation for USPS
  - Language blocking Treasury from attaching conditions to the previously authorized loan
- House Democrats' \$1.5 trillion infrastructure bill, which is expected to pass the House next week, includes an additional \$25 billion for postal fleet modernization

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## Legislative Outlook (cont'd)

**Republican skepticism:** Key Republican committee leaders with jurisdiction over USPS have raised concerns about the accuracy of COVID-related financial projections initially provided to Congress

**President Trump:** The President's concerns (and frequent tweets) about USPS and vote-by-mail are barriers to any postal legislation

**Election year:** Very few bills will become law before the November elections, so few opportunities exist to address USPS needs through legislation

**Senate action on next COVID bill:** Expect Senate Republicans to put something forward in July

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## Election Season Postal Issues

### Nonprofit U.S. Marketing Mail (DMM 703)

- Eligible organizations?
  - Not just 501(c)(3)s — 501(c)(4)s, (c)(5)s, (c)(8)s, (c)(19)s also qualify
  - Mail sent must belong to authorized organization; may not lend authorization to affiliate
    - BUT ok for SSF to mail under sponsoring nonprofit authorization
- Political messages qualify
- Nonprofit name and return address on envelope OR prominently on mail piece
  - Use official name (aka or dba ok in conjunction)
  - Any address belonging to authorized mailer is ok

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## Election Season Postal Issues

### Vote by Mail

- Increased use by state and local election officials due to pandemic
- USPS provides support to election officials
- Pre-paid return postage?
  - Required by law in some jurisdictions
- Role for outside groups?

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## Questions?



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